

Message Text

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INFO CINCPAC HONOLULU

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 7431/1

E.O. 11652: GDS

TAGS: MASS, TW.

SUBJECT: GAO DRAFT REPORT ON MILITARY ASSISTANCE TO ROC

1. SUMMARY. GAO DRAFT REPORT RECOMMENDS THAT ROC PAY ALL EXPENSES INCURRED BY U.S. IN PROVIDING ROC WITH MILITARY ASSISTANCE. COUNTRY TEAM AGREES TAIWAN'S ECONOMY HAS REACHED POINT WHERE WE CAN CONTEMPLATE RELATIVELY PROMPT PHASE OUT OF CONCESSIONARY MILITARY ASSISTANCE. NEVERTHELESS, GIVEN RELATIVELY SMALL AMOUNT OF REMAINING CONCESSIONAL ASSISTANCE INVOLVED (US\$6.2 PLUS DISCOUNT INTEREST RATE ON FMS CREDITS)-- AND FACT THAT IMPLEMENTATION OF SOME RECOMMENDATIONS IN REPORT, WOULD HAVE A DECIDEDLY ADVERSE POLITICAL EFFECT ON OUR RELATIONSHIP WITH THE ROC--COUNTRY TEAM RECOMMENDS AGAINST PRECIPITATE U.S. MOVES IN DIRECTION PROPOSED BY AUDIT TEAM. END SUMMARY.

2. AVERAGE FIGURE GIVEN IN AUDIT REPORT FOR TOTAL ASSISTANCE OF US\$140 MILLION ANNUALLY IS CORRECT IN THE AGGREGATE BUT NEEDS CLARIFICATION.

A. EXCESS--WE CONSIDER IT MISLEADING TO REPORT ACQUISITION OR ORIGINAL COST OF EDA RECEIVED BY ROC IN FY73 AND PREVIOUS YEARS. FOR MOST PART, EDA RECEIVED BY ROC IS USED EQUIPMENT, OFTEN IN UNSERVICEABLE CONDITION. BASED ON OFFICIAL PRICING GUIDE AND RANDOM SAMPLE OF 56 ALLOCATIONS
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FROM FY73 MIMEX OFFERS, OVERALL VALUE OF ALLOCATIONS

WAS FOUND BY MAAG TO BE 8.9 PERCENT OF ORIGINAL ACQUISITION VALUE. USING ROUGH ESTIMATE OF 8.9 PERCENT AS FAIR VALUE OF EDA ALLOCATED TO ROC IN FY73, ITS DOLLAR VALUE WAS US\$8.08 MILLION RATHER THAN US\$89.7 MILLION (ACQUISITION VALUE) USED GA GAO.

B. F-5E -FIGURES FOR FY73 (US\$17.6 MILLION) AND FY74 (US\$28.3 MILLION) AS U.S. FUNDING FOR F-5E CO-PRODUCTION SHOULD NOT BE VIEWED AS CONTRIBUTION OR GRANT ASSISTANCE, BUT PURSUANT TO BILATERAL AGREEMENT FOR ROC'S F-5A AIRCRAFT TRANSFERRED

TO REPUBLIC OF VIETNAM AIR FORCE UNDER PROJECT ENHANCE PLUS. C. FMS-IN COUNTRIES WHERE SLOW REPAYMENT AND DEBT RESCHEDULING DIMINISHES RETURN TO U.S., WE RECOGNIZE SOME VALIDITY TO VIEW THAT FMS COMMITMENTS ARE VIRTUALLY EQUIVALENT TO GRANT AID, BUT THIS IS NOT THE CASE WITH ROC. ROC HAS YET TO RENEGE ON ANY OF ITS WIDE-RANGING DEBT SERVICE REPAYMENTS AND GOVERNMENT CONTINUES TO GENERATE A SIZEABLE ANNUAL CAPITAL REFLOW TO THE U.S. ONLY CONCESSIONAL ELEMENT IN U.S. SALES UNDER FMS CREDIT PROCEDURES TO ROC, IS MODEST INTEREST AND TERM ADVANTAGE. BENEFITS TO U.S. ARE PURCHASE OF U.S. WEAPONS SYSTEMS, INFLUENCE ON ROC DEFENSE ORIENTATION, PURCHASE OF U.S. EQUIPMENT AND COMPATIBILITY OF U.S. AND ROC WEAPONS SYSTEMS.

3. TRUE GRANT AID TO ROC IN FY74 IS US\$5.5 MILLION FOR TRAINING AND US\$5.7 MILLION FOR TRANSPORTATION. FOLLOWING TABLE, WHICH WE SUGGEST AS REPLACEMENT FOR THAT ON REPORT, PAGE 9, IN OUR VIEW, MORE ACCURATELY DEPICTS ACTUAL SECURITY ASSISTANCE TO ROC:

SECURITY ASSISTANCE (TAIWAN)
(US DOLLAR MILLIONS)

FISCAL YEAR	
1973	1974

MILITARY ASSISTANCE (U.S. EXPENDITURES)

GRANT AID (MATERIEL/SERVICES)	\$2.1
EXCESS DEFENSE ARTICLES	8.08 -1/
(VALUE AT TIME OF TURNOVER)	
TRAINING	IS .6 \$ 0.5

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TRANSPORTATION	7.0	5.7
	\$17.78 -2/	\$6.2-2/

MILITARY SALES (ROC EXPENDITURES)

FMS CREDIT	45.2	65.0
CASH	67.9	45.0
	-----	-----
	\$113.1	110.0

NOTE: -1/: ACQUISITION COST-US\$89.7 MILLION.

-2/: THIS FIGURE DOES NOT INCLUDE THE US\$17.6 MILLION IN 1973 OR THE US\$28.3 MILLION THAT THE U.S. OWED AS REIMBURSEMENT FOR 28 F-5A AIRCRAFT TRANSFERRED TO U.S. AIR FORCE FROM TAIWAN AND THEN TO VIETNAM.

4. TAIWAN'S ECONOMIC GROWTH, TRADE SUCCESS, AND RESERVES POSITION HAVE, AS GAO NOTES, GREATLY INCREASED ROC CAPACITY TO ABSORB INCREASING COSTS OF DEFENSE. HOWEVER, ROC HAS GENERAL DEFICIENCIES IN ALL SERVICES, AND THERE ARE LIMITATIONS TO ITS "ABILITY TO PAY:

A. ROC FACES TRANSITIONAL BUDGETARY PROBLEMS IN ATTEMPTING TO COPE WITH TERMINATION OF GRANT MATERIEL PROGRAMS; WITH ANNUAL RECEIPT OF U.S. FMS CREDITS BELOW LEVELS PROGRAMMED; AND WITH EARLY AND UNFORESEEN REPAYMENT REQUIREMENTS FOR VARIOUS CO-PRODUCTION PROJECTS.

B. ROC MILITARY IS NOW EXPERIENCING A GENUINE "CASH FLOW" PROBLEM IN MEETING COMMITMENTS TO MODERNIZATION PROJECTS.

C. OUR ANALYSIS OF RECENT ROC BUDGET DATA REVEALS FURTHER SIGNIFICANT RISE IN SUM ROC IS SPENDING ON DEFENSE, I.E., UP 17.1 PERCENT OVER FY73, ABSORBING 61.7 PERCENT OF CENTRAL GOVERNMENT BUDGET OR ABOUT 10 PERCENT OF GNP.

5. TRAINING- GAO CORRECTLY STATES THAT GRANT-AID TRAINING PROGRAM FOR TAIWAN HAS BEEN IMPORTANT TO DEPARTMENTS OF STATE AND DEFENSE NO, HOWEVER, AS A DEVICE TO RETAIN TAIWAN'S ELIGIBILITY FOR FUTURE ADDITIONAL ASSISTANCE UNDER SECTION 653 OF THE FOREIGN ASSISTANCE ACT, BUT AS MEANS OF MAINTAINING INFLUENCE IN ROC
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DEFENSE ESTABLISHMENT. IN STRICTLY ECONOMIC TERMS ROC COULD OF COURSE BE REQUESTED TO PAY FULL COSTS FOR PARTICIPATION IN U.S. TRAINING PROGRAMS. HOWEVER, SUCH A CHANGE WOULD HAVE TO BE ACCOMPLISHED AS PART OF A WORLD-WIDE POLICY, PERHAPS BY USG ANNOUNCING A LIST OF COUNTRIES (INCLUDING THE ROC) WHICH, BECAUSE OF INCREASED ABILITY TO PAY, WILL IN FUTURE BE REQUIRED TO PAY FOR TRAINING.

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ACTION EA-14

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C O N F I D E N T I A L SECTION 2 OF 2 TAIPEI 7431

6. SUPPLY OPERATIONS - CONTRACTUAL NATURE OF USG PAYMENT OF PCH&T COSTS FOR EDA MATERIEL ORDERED AND FUNDED FROM PRIOR YEAR PROGRAMS IS VALID OBLIGATION. US\$5.7 MILLION PROVIDED IN FY74 FOR SUPPLY OPERATIONS SHOULD NOT BE LABELED AS "CONTINUING" GRANT OF MILITARY ASSISTANCE BUT RATHER, U.S. FULFILLMENT OF PRIOR COMMITMENT. WE AGREE THAT ROC SHOULD PAY FOR TRANSPORTATION COSTS OF ANY FUTURE- CONTRACTED DELIVERIES OF EDA.

7. SCRAP SALES - FOREIGN ASSISTANCE ACT OF 1973, REPORTEDLY, WILL REQUIRE PROCEEDS FROM SALES OF SURPLUS PROPERTY TO REVERT TO U.S. TREASURY. THUS, GAO CRITICISM OF UTILIZATION OF SCRAP FUND PROCEEDS IN ROC FOR PRIORITY PROJECTS (GOVERNED BY U.S./ROC AGREEMENT) HAS BEEN OVERTAKEN BY EVENTS.

8. GAO FINDING THAT ROC GROUND FORCES ARE LARGER THAN U.S. HAS RECOMMENDED IS CORRECT. U.S. HAS ARGUED MERITS OF SMALLER ROC FORCE TO MEET LEGITIMATE DEFENSE REQUIREMENTS AND THAT SIZE OF GROUND FORCE CAN DECREASE AS MOBILITY AND FIREPOWER ARE INCREASED. ROC RELUCTANCE TO REDUCE SIGNIFICANTLY THEIR GROUND FORCES STEMS, IN PART, FROM THEIR DIFFERING PERCEPTION OF THE THREAT TO THEIR SECURITY, AND OBLIGATIONS GOVERNMENT FEELS TOWARD MAINLAND CHINESE ELEMENTS

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IN ARMED FORCES. NONETHELESS, DIVISION OF RESPONSIBILITIES UNDER MUTUAL DEFENSE TREATY LEAVES GROUND DEFENSE TO ROC, AND COMPOSI-

TION AND SIZE PREROGATIVE. ROC MILITARY IS MAKING EFFORT TO REDUCE PERSONNEL COSTS BY REAPPRAISING MILITARY REQUIREMENTS, BY LIMITED REORGANIZATION, BY ELIMINATING SOME INTERMEDIATE HEADQUARTERS, AND BY USING REDUCED STRENGTH MANNING LEVELS. WHILE THESE MEASURES ARE SHORT OF MAJOR TROOP REORGANIZATIONS AND REDUCTIONS, SOME SUCCESS IS BEING EXPERIENCED AND U.S. WILL CONTINUE TO PRESS FOR REDUCED FORCES. PRESENT TOTAL FORCE LEVELS (AS OF OCTOBER 1973) IS 521,000, WHICH IS 44,000 LESS THAN THE GAO REPORTED LEVEL OF 565,000 FOR JANUARY 1973.

9. GAO PROPOSAL THAT ROC SHOULD ABSORB FULL COSTS OF MAAG AND RELATED PLANNING STAFFS IS BASED ON PREMISE THAT PURPOSE OF THESE STAFFS IS DEFENSE OF TAIWAN, THAT "TAIWAN CAN PAY ITS OWN WAY," AND, BY INFERENCE, THAT U.S. DERIVES NO BEFEFIT FROM ACTIVITIES OF MAAG AND OTHER U.S. MILITARY AGENCIES ON TAIWAN. THE CONTENTION OVERLOOKS RECIPROCAL AGREEMENT UNDER WHICH WE HAVE STATIONED U.S. FORCES ON TAIWAN FOR PURPOSE OF U.S. MILITARY CONVENIENCE. TO SEEK PAYMENT FOR SMALL PLANNING STAFFS INVOLVED, ESPECIALLY USTDC WHOSE CONTRIBUTION TO TAIWAN DEFENSE IS PART OF BROADER U.S. GOAL OF REGIONAL STABILITY, WOULD SEEM TO US TRADING MINIMAL MONETARY GAIN FOR CONSIDERABLE POLITICAL LOSS. IN ANY CASE U.S. IS ALREADY EMBARKED ON DRAWDOWN PROCESS IN FURTHERANCE OF TERMS OF SHANGHAI COMMUNIQUE. THIS IS DELICATE PROCESS AND COUNTRY TEAM BELIEVES STRONGLY THAT U.S. INTERESTS WOULD NOT BE SERVED IF REASONABLY SMOOTH WORKING RELATIONSHIPS WERE DISLOCATED BY REQUIRING ROC TO PAY SALARIES AND SUPPORT FOR DECLINING NUMBER OF U.S. PERSONNEL. PAGE 32 OF THE REPORT SHOULD BE CORRECTED TO SHOW 103 AMERICANS AT TDC AND PAGE 28 TO SHOW 313 AMERICANS ASSIGNED TO MAAG,TDC, AND USARFT PLANNING STAFFS. TABLE ON PAGE 22 AND RELATED FIGURES ALSO SHOULD BE REVISED ACCORDINGLY.

10. MAAG MANNING - CONTINUING REQUIREMENT FOR MAAG, ON DECLINING SCALE, HAS BEEN RCOGNIZED BY A RECENT EXTENSIVE CINCPAC MANAGEMENT STUDY TEAM WHICH HAS BEEN FORWARDED TO CONFIDENTIAL

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JCS FOR A REVISED FY74 JOINT MA GOWER PROGRAM. COUNTRY TEAM HAS CONCURRED IN REDUCED MAAG MANNING SCHEDULE FOR ROC WHIHC WILL DRAWDOWN TO A "CORE" ELEMENT OF 33 MEN IN FY 1978. AS MAAG PHASEDOWN OCCURS, PROPOSAL HAS BEEN MADE TO COVER SPECIFIC ROC NEEDS FOR TECHNICAL EXPERTISE THROUGH FURNISHING TDY MOBILE TRAINING TEAMS ON REIMBURSED BASIS.

1. USARFT - IN AN EFFORT TO REDUCE EXISTING ARMY HEAD-

QUARTERS IN THE PACIFIC COMMAND. CINCUSARPAC HAS INITIATED
STAFF ACTIONS TO DISCONTINUE HQ USARFT, EFFECTIVE IN
MARCH 1974.

12. REVIEWING ABOVE, COUNTRY TEAM BELIEVES U.S. FORCE
DRAWDOWN IN ROC AND ASSUMPTION OF FULL FINANCIAL RESPONSI-
BILITY BY ROC FOR ITS OWN SECURITY, SHOULD BE GRADUAL WITH
PACE ESTABLISHED BY, A) U.S. POLITICAL INTERESTS AND CON-
SIDERATIONS; B) REGIONAL AND ROC STABILITY; AND C) ROC
ECONOMIC CIRCUMSTANCES.
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